



Memorandum

TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Leslye Corsiglia
Joseph Horwedel

SUBJECT: SEE BELOW

DATE: March 13, 2013

Approved

Date

March 13, 2013

**SUBJECT: MOTEL CONVERSION AND SINGLE ROOM OCCUPANCY (SRO)
ORDINANCE CHANGES**

RECOMMENDATION

It is recommended that the Community and Economic Development Committee (CEDC) review and provide comments on the status update on proposed amendments to the San Jose Municipal Code provisions for Single Room Occupancy (SRO) facilities, hotel conversions, and the potential of utilizing hotels/motels to serve the homeless population.

BACKGROUND

On October 9, 2012, the Mayor and City Council approved additions to the City Council's 2012-2013 Work Plan, which prioritized the projects and ordinances staff is to review and modify, if needed, before the completion of the Work Plan period. One of the policy areas the Mayor and City Council directed staff to work on was a modification of the City's SRO ordinance and policies governing motel conversions. This item was not included within the City Council's top ten-priority list for ordinance updates; however, staff was asked to research the potential opportunity to house homeless individuals in either motels and/or SROs and to provide the CEDC with a recommendation on potential opportunities.

ANALYSIS

In the past, a traditional SRO was typically a multiple-tenant building housing residents in individual rooms and utilizing common areas to provide certain amenities such as bathrooms and/or kitchens. Because the units are smaller in size and tenants share amenities, it was

common for affordable housing developers to use SRO development as a cost-effective approach to providing affordable housing. While some SRO developments are newly constructed, there are a variety of property reuse examples, including former hotels, public service facilities (such as YMCA buildings and/or schools) and even single-family properties.

Typically, developers of SRO projects fall into one of two groups: program-based supportive housing providers, who see social service delivery as their primary mission; or housing-based supportive housing providers, who place emphasis on property management and follow more of a referral-based method for services, when needed. However, some SRO developers have built projects that do not have any special services attached.

SROs are an important housing type for the City to consider as it works to respond to homelessness, particularly for the chronically homeless. SROs have also been a key housing type for the disabled, particularly the developmentally disabled. Smaller units with lower rents are more feasible for individuals on fixed incomes.

In recent years, developers have moved more to a studio style of SRO unit, where bathroom and kitchen facilities are not shared. Some cities are promoting "micro units," which are similar to studios and SROs, but often smaller in size. San Francisco recently approved a development with 220-square foot market rate rental units.

San Jose's SRO Ordinance

Over the years, the Housing Department has partnered with developers to complete 14 SRO projects with 894 units. The majority of these developments were newly constructed, with a couple that were acquisition/rehabilitation or reuse.

San Jose's Zoning Code Section 20.80.1300 establishes the requirements for SROs, breaking them down into two types—SRO Living Unit Facilities and SRO Residential Hotels. The former restricts the size to no smaller than 150 square feet and no larger than 400 square feet, with an average size of 275 square feet, and the latter restricts the size to between 70 to 219 square feet. According to the Code, SRO living units may be permitted through a Conditional Use Permit on properties zoned R-M (multi-family residential), and SRO living units and SRO hotels may be permitted through a Conditional Use Permit on properties zoned CN, CP or CG (commercial zoning districts).

The ordinance further defines the amount of common area to be provided, occupancy thresholds, and other health and safety related items. For SRO Residential Hotels, units can only be provided on a daily, weekly, or monthly basis. This requirement can make financing the development of an affordable SRO difficult or impossible, as most funding sources require a longer-term lease. Additionally, as the City looks to house its chronically homeless population, we want to provide permanent supportive housing to provide a stable base for those we house; this model envisions long-term housing.

Given the differences between the City's Zoning Code requirements for SROs and current practice, staff is recommending an update to the Code to enable more SRO development and the potential for conversion of existing hotels to SROs in places where the long term residential use does not conflict with the City's General Plan. To accomplish this task, Housing and PBCE will partner to identify possible modifications to the existing Zoning Code and will report these potential modifications to the CEDC in June.

Motel and Hotel Conversions

Concerns have been raised about hotels and motels that have low occupancy rates, particularly those where the City has seen a rise in criminal activity such as prostitution, drug dealing, and other crimes along Monterey Road, North 1st Street, North 13th Street, and the Alameda. There may be an opportunity for a developer to purchase and convert a hotel or motel into an apartment or SRO use to meet multiple City objectives.

There are a number of factors that need to be addressed when hotel/motel conversions are considered. These include:

1. Location-- depending on the location of a particular motel, converting the motel to a residential use or to an alternative commercial use may require, at minimum, a Use Permit since most hotels and motels are commercially zoned. Depending upon the location, a General Plan amendment and/or zoning change may also be required. As a "jobs first" General Plan, General Plan amendments proposing to change commercially designated land to facilitate hotel/motel conversions to residential use may raise challenging policy questions for the City Council.
2. Cost—acquiring and rehabilitating existing buildings can be costly especially if the building is in poor shape. Additionally, adding kitchen facilities, if not included in an individual unit, and making building upgrades to meet Building Codes to convert from a hotel/motel to residential use (e.g., fire walls, metering, etc.) adds additional cost. The City converted one motel to an SRO development in 1995, located on Monterey Highway and known as Markham Terrace. We have since had to tear down the building and are awaiting funding to rebuild. The building construction of the former motel, even after rehabilitation, was not of a good enough quality to last.
3. Current SRO Ordinance Requirements-- Due to the requirements for compliance with the City's Zoning and Building codes, the number of properties eligible to be converted into SRO use is limited.
4. Timing—As a long-term solution to providing affordable housing, including housing for the chronically homeless, motel/hotel conversions may be a desirable option. However, the process for acquiring, planning and permitting, financing, and rehabilitating a former hotel/motel can take several years.

As mentioned earlier, the SRO model is evolving and developers are opting to build efficiency or small studio units to serve vulnerable populations. As a result of this shift, and because the City has a supply of older hotels/motels where conversion may be an option, it would be prudent to

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draft flexible SRO policies and ordinances that account for the new efficiency units as well as the traditional SRO model where tenants share some amenities.

It is anticipated that the work to update provisions in the San Jose Municipal Code related to SROs may be a significant portion of the City's broader efforts to facilitate the conversion of motels to SROs or other uses. Housing and Planning staff will partner and embark on both analyses concurrently and will return to the CEDC in June to present key findings.

Update on Using Hotels/Motels to House the Homeless

In November 2012, the Housing Department began initial research to determine if the City's stock of hotels/motels could be used as an affordable housing resource. As a first step, staff contacted and met with five hotel owners and discussed the possibility of using some of their units for affordable housing. While meeting with hotel owners and researching best practices across the City, we determined that there are a variety of ways hotels/motels could be used to house vulnerable populations. Options identified for further research included purchasing, rehabilitating, and converting existing hotels into SROs or apartments, and master leasing a block of rooms in an existing motel.

As mentioned above, there are challenges associated with acquiring and rehabilitating existing hotels and motels. There is interest, however, from nonprofit developers, so we will continue to pursue these opportunities. While the master leasing model is also of interest, there may be zoning and building considerations the owner would have to undertake prior to moving forward which may limit the number of owners interested in participating. We will continue to explore this option.

NEXT STEPS

The following are anticipated next steps for enabling motel/hotel conversions and updating the City's Single Room Occupancy (SRO) Ordinance:

- Prepare a detailed project scope and work program for the update of applicable sections of the San Jose Municipal Code, including, but not limited to the Zoning Code (Title 20).
- Identify potential funding sources for rental subsidies that could be used to house homeless individuals in a hotel and/or motel.
- Present key findings to the CEDC at the June meeting.
- Conduct Public Outreach on proposed recommendations for Code changes.
- Present recommendations to the City Council in October 2013.

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